



AQA - A Level Economics

Individuals, Firms, Markets & Market Failure

1.2 Economic methodology & the economic problem

Worked Examples

Contents

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- Economic methodology and the economic problem

1. Economic methodology & the economic problem

Exam Style Question 1

Statement 1: Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

Which **one** of the following best describes the two statements above? [1]

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

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Exam Style Question 1

Answer:

Application:

- **Statement 1:** “Cuba has a healthcare system with a patient-to-doctor ratio of 155:1.”
 - This is a **fact** that can be tested or verified. It’s describing what exists, so it’s a **positive statement**.
- **Statement 2:** “Other countries ought to adopt a similar healthcare system to that which exists in Cuba.”
 - This is an **opinion** about what should happen. It’s based on a value judgment, so it’s a **normative statement**.

Correct Answer: C

- Statement 1 = Positive
- Statement 2 = Normative

Remember Positive = facts, Normative = opinions.

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Exam Style Question 2

Statement 1: In the March 2016 Budget, the Chancellor of the Exchequer announced a tax increase on tobacco of 2% above the rate of inflation.

Statement 2: The increase in the tax on tobacco is unjustified since it takes up a high proportion of the income of the low paid.

Which **one** of the following best describes the two statements above? [1]

- A: Statement 1 is normative, and Statement 2 is positive
- B: Both statements are normative
- C: Statement 1 is positive, and Statement 2 is normative
- D: Both statements are positive

Answer

☐

Explanation [3]

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Exam Style Question 2

Answer:

C [1]

Definition: A positive statement are facts that can be tested or verified. [1]

Definition: A normative statement is one that is based on opinions or value judgments about what should be. They can't be proven true or false. [1]

Application:

Statement 1: This is a fact. It can be checked and verified, by reference to government Budget report over the tax increase on tobacco, so it's a positive statement. [1]

Statement 2: This is an opinion because it includes the word "unjustified" and reflects a value judgment about fairness. So, it's a normative statement. [1]



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Exam Style Question 3

Statement 1: Bonuses to financial sector workers in the City of London exceeded £13 billion in 2009.

Statement 2: A 50% tax on bonuses above £25,000 is fair.

Which **one** of the following best describes the two statements above? [1]

A: Statement 1 is positive, and Statement 2 is normative

B: Both statements are normative

C: Statement 1 is normative, and Statement 2 is positive

D: Both statements are positive

Answer

☐

Explanation [3]

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Exam Style Question 3

Answer:

A [1]

Definition: A positive statement are facts that can be tested or verified. [1]

Definition: A normative statement is one that is based on opinions or value judgments about what should be. They can't be proven true or false. [1]

Application:

Statement 1: This is a fact. It can be checked and verified whether the financial sector workers did receive more than £13 billion in bonuses, so it's a positive statement. [1]

Statement 2: This is an opinion because it includes the word "fair". So, it's a normative statement. [1]



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Exam Style Question 4

The 'Energy Company Obligation' is the government's term for its programme to make houses in the UK more energy efficient.

Explain an opportunity cost to the government of granting subsidies to energy suppliers to install loft insulation. [3]

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Exam Style Question 4

Answer:

Definition: Opportunity cost is the value of the next best alternative forgone. [1]

Application: In this case, when the government gives subsidies to energy suppliers to install loft insulation, it has to use money from its budget, which means it can't spend that money on other important things.

For example, the opportunity cost could be:

- Building more hospitals or improving healthcare services.
- Investing in education by hiring more teachers or improving schools.
- Fixing roads or expanding public transport systems. [1]

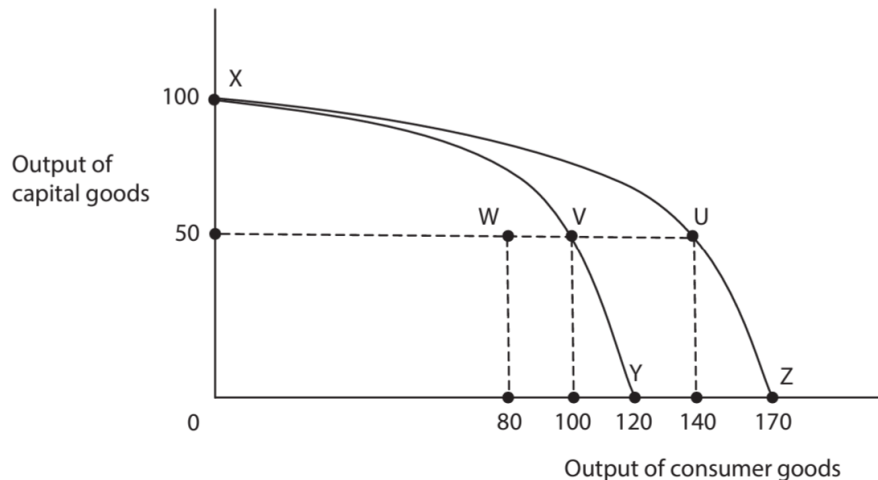
So, by focusing on making homes more energy efficient, the government gives up the chance to invest in other areas that could also benefit society and in the long run there might be better ways of saving energy. [1]



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Exam Style Question 5

The diagram refers to production possibility frontiers (PPF) for a country that produces capital goods and consumer goods.



Originally, the economy has a PPF shown by the line **XY**, operating at point **V**. The PPF then moves to **XZ**, operating at point **U**.

- (a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working. [2]

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Exam Style Question 5

- (b) Which one of the following was the most likely cause of the movement in the PPF from **XY** to **XZ**? [1]

- ☐ A A reduction in unemployment in consumer goods industries
- ☐ B A rise in the cost of producing consumer goods
- ☐ C An increase in demand for consumer goods
- ☐ D A technological improvement in the production of consumer goods

- (c) Explain **one** characteristic of the economy at position **W**. [2]



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Exam Style Question 5

Answer:

(a) Calculate the original and the new opportunity cost of producing 50 capital goods. You are advised to show your working. [2]

Original opportunity cost:

At 50 capital goods on-line XY, Point V produces 100 consumer goods so the opportunity cost is:

$$\text{Opportunity cost} = 120 - 100 = 20$$

Therefore, the opportunity cost of producing 50 capital goods on line XY is 20 consumer good. **[1]**

New opportunity cost:

At 50 capital goods on line XZ, Point U produces 140 consumer goods so the opportunity cost is:

$$\text{Opportunity cost} = 170 - 140 = 30$$

Therefore, the opportunity cost of producing 50 capital goods on-line XZ is 30 consumer good. **[1]**

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Exam Style Question 5

Answer:

(b) Which one of the following was the most likely cause of the movement in the PPF from XY to XZ? [1]

Answer is D. **[1]**

Why not the other options:

A: Reducing unemployment boosts production but doesn't shift the PPF outward; it just moves the economy closer to the current PPF i.e., from W to V.

B: PPF shows potential output and not the cost of output.

C: PPF shows potential output and not the demand for a good or service.

(c) Explain one characteristic of the economy at position W. [2]

Position W is inside the PPF which means the economy is not fully using all its available resources and operating inefficiently. **[1]**

It is possible to increase output of both consumer goods and capital goods by using unemployed resources. **[1]**



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Exam Style Question 6a

Which **one** of the following is most likely to cause an outward shift in a country's PPF? [1]

- A A decrease in unemployed resources
- B An increase in demand for consumer goods
- C An increase in unemployment benefits
- D An increase in immigration

Answer

☐

Explanation [3]

You earn 1 mark for the correct answer and also get 3 marks by explaining why the other options are incorrect. See next page.

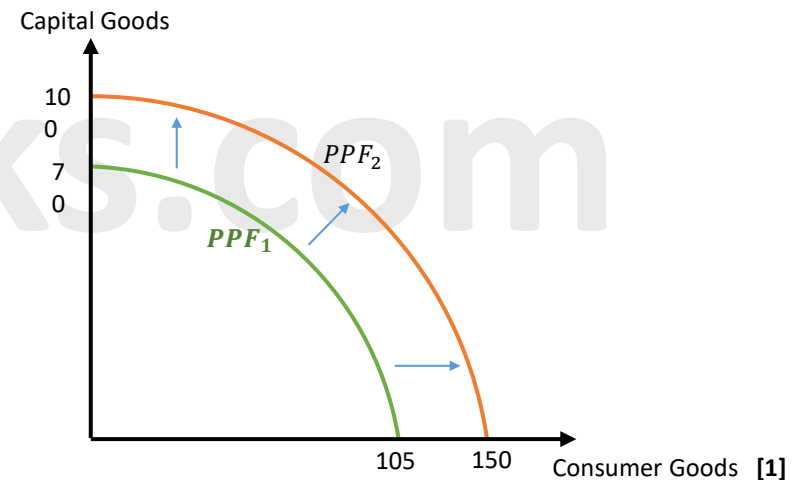
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Exam Style Question 6a

Answer:

Answer D. [1]

Definition: The **Production Possibility Frontier (PPF)** shows the maximum output an economy can achieve using all its resources efficiently. [1]



Application: An increase in immigration brings in more workers, which adds to economy's available resources (labour). [1]



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Exam Style Question 6b (Alternative method)

Which **one** of the following is most likely to cause an outward shift in a country's PPF? [1]

- A A decrease in unemployed resources
- B An increase in demand for consumer goods
- C An increase in unemployment benefits
- D An increase in immigration

Answer

☐

Explanation [3]

This is how we earn marks by using a different method and focusing on rejection marks. Earn 4 marks by explaining why the other 3 options are wrong, even if you can't explain why D is correct.

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Exam Style Question 6b (Alternative method)

Answer:

Answer D. [1]

Rejection marks: Why not the other options?

A: A decrease in unemployment would just move the actual output closer to the PPF and not shift it. [1]

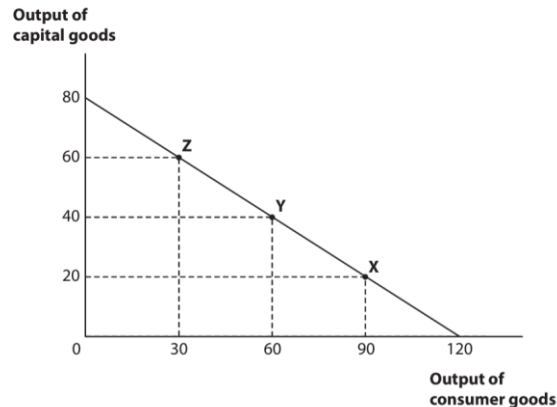
B: An increase in demand for goods does not guarantee an outward shift. PPF shows potential output and not the demand for a good or service. [1]

C: Increase in unemployment benefits may reduce the incentive to work and could even decrease the PPF in the long run. [1]



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Exam Style Question 7



The diagram shows a PPF for an economy which is currently operating at Point X. Which **one** of the following is true? [1]

- A The opportunity cost of producing 90 units of consumer goods is 20 capital goods.
- B Moving to point Y will decrease the rate of economic growth compared to point X.
- C The opportunity cost of increasing the output of capital goods is constant.
- D Moving to point Z will increase current living standards

Answer

☐

Explanation [3]

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Exam Style Question 7

Answer:

Answer: C [1]

Definition: Opportunity cost is the value of the next best alternative forgone. [1]

Definition: The **Production Possibility Frontier (PPF)** shows the maximum output an economy can achieve using all its resources efficiently. [1]

Application: Since the line is straight, it shows a constant opportunity cost of 1 capital good to every 1.5 consumer goods. [1]

Rejection Marks (Alternative way to get 3 marks)

Option A is wrong because the opportunity cost of producing 90 consumer goods is actually 60 capital goods, not 20.

Option B is wrong because moving to Point Y increases capital goods, which boosts economic growth, not decreases it.

Option D is wrong because at Point Z, fewer consumer goods are produced, which means living standards in the current period will drop.

Please see the '1.1 Economic methodology and the economic problem Revision Notes' pack for detailed notes.

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